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PROCESSED POTATO GROWERS' ASSOCIATIONS

Information and Organization Needs



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HIGHLIGHTS

Short- and long-term recommendations are made for revitalizing processed potato growers' position in the industry.

Potato producers in the five major growing areas of the United States are faced with a situation in which there are many producers but only a few processors. Some producers have only a single processor to deal with. Bargaining associations have been formed in the five major producing regions, but they are handicapped by not representing all or even a majority of producers. Processors grow about 5 percent of their product themselves, buy about 45 percent on the open market, and contract for 50 percent with growers.

This report recommends that potato growers form one national association to collect all appropriate information necessary to formulate a bargaining strategy, analyze and interpret the information, develop a systematic exchange of information among bargaining associations, and develop bargaining strategies. The new association should be a separate organization with membership composed of existing bargaining associations. It would not replace the present associations, but would operate to make them more effective. A single organization is needed to:

- Ensure compliance with various laws, especially antitrust laws.

- Maintain continuity of information.

- Assure adequate and equitable financing.

- Bring diverse interests together and specify the relationships among participants.

Operating expenses for a national bargaining organization would be about \$75,000 a year. Major items of expense would be salaries for two people, travel, and office supplies and equipment.

Longer term alternatives for potato producers to consider include: market commitment, expanded marketing activities, and organizational systems.

Market commitment would most likely come in the form of a marketing agreement between the producer and the national cooperative association. A marketing agreement obligates the producer to sell his production through the cooperative and also obligates the cooperative to receive his production.

Expanded marketing activities may include supply, marketing, and finance.

Organizational alternatives are a national bargaining organization and a national marketing organization that might be subdivided into regional and national suborganizations on a nationwide scale.

PROCESSED POTATO GROWERS' ASSOCIATIONS

Information and Organization Needs

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INTRODUCTION

Rapid changes in utilization of potatoes from fresh to processed have occurred because of major changes in consumer markets and in the pricing and delivery systems for the potato crop. As processing has increased, processors have seen the advantages of contracting, which include increased efficiency, more control over cost, and control over quality. A shift to preseason contracts has been followed by organized contract bargaining between growers and processors.

Major production regions are geographically dispersed and most producers are limited to selling to only two or three buyers; some are limited to a single buyer. While producers are limited to only a few buyers, processors buy from many producers. The ability of processors to offer contracts on a take-it-or-leave-it basis encourages producers to organize for purposes of bargaining.

Producers have formed bargaining associations in each of the major processing potato growing areas. However, the associations have not been effective in bargaining on a year-to-year basis for a variety of reasons. Major reasons are lack of appropriate information, lack of market analysis, and grower members' insistence on maintaining individual independence by dealing directly with processors.

Objectives of Study

Objectives of the study are to: evaluate the present structure of producers and processors in the processed potato industry, set forth recommended shortrun organization and information needs for producer bargaining associations, and develop a longer run marketing strategy for producer bargaining associations. This report suggests directions toward which bargaining associations might move to become more effective in negotiations with potato processors, more efficient in the marketing process, and more effective participants in the marketing system.

Potato Production and Utilization

Potato Production

Potatoes are produced in every State in the United States, and because of a wide range of climatic conditions, four crops can be produced. The winter crop harvested from January through March accounts for only about 1 percent of U.S. production and is produced in Florida and California (table 1). The spring crop harvested from April through June in eight States accounts for about 7 percent of U.S. production. The summer crop harvested from July through September accounts for another 7 percent of U.S. production and is produced in 19 States. The fall crop harvested from October through December accounts for about 85 percent of U.S. production and is produced in 25 States (fig. 1). Idaho, Washington, Maine, North Dakota, Oregon, Minnesota, and Wisconsin produce more than 75 percent of the fall crop.

Yields in these six leading fall potato producing States vary considerably, with

Table 1—Potato production by seasonal groups and State, 1974 crop

Season and State	Production
	<i>1,000 cwt.</i>
Winter:	
Florida	1,767
California	1,166
Total winter	2,933
Percent of U.S. crop	1
Spring:	
California	13,668
Florida	3,668
Arizona	2,236
Alabama	1,813
North Carolina	1,410
Texas	962
Louisiana	190
Mississippi	350
Total spring	24,297
Percent of U.S. crop	7
Summer:	
Virginia	4,030
California	3,465
New Jersey	2,430
Texas	2,244
Minnesota	2,125
Colorado	1,815
Michigan	1,596
Total top 7	17,705
Other 11 States ¹	7,488
Total summer	25,193
Percent of U.S. crop	7
Fall:	
Idaho	81,195
Washington	41,160
Maine	36,400
North Dakota	22,950
Oregon	17,482
Minnesota	15,300
Wisconsin	14,000
Total top 7	228,487
Other 18 States ²	60,187
Total fall	288,674
Percent of U.S. crop	85
Total U.S. crop	341,097

¹Includes: Alabama, Delaware, Illinois, Indiana, Iowa, Maryland, Nebraska, New Mexico, North Carolina, Ohio, Tennessee, and West Virginia.

²Includes: California, Colorado, Connecticut, Indiana, Massachusetts, Michigan, Montana, Nebraska, Nevada, New Hampshire, New York, Ohio, Pennsylvania, Rhode Island, South Dakota, Utah, Vermont, and Wyoming.

Source: Compiled from: Potatoes and Sweetpotatoes, Statis. Rptg. Serv., U.S. Department of Agriculture, Aug. 1975, p. 5.

Fig. 1--POTATO PRODUCTION, FALL CROP BY STATE, 1975

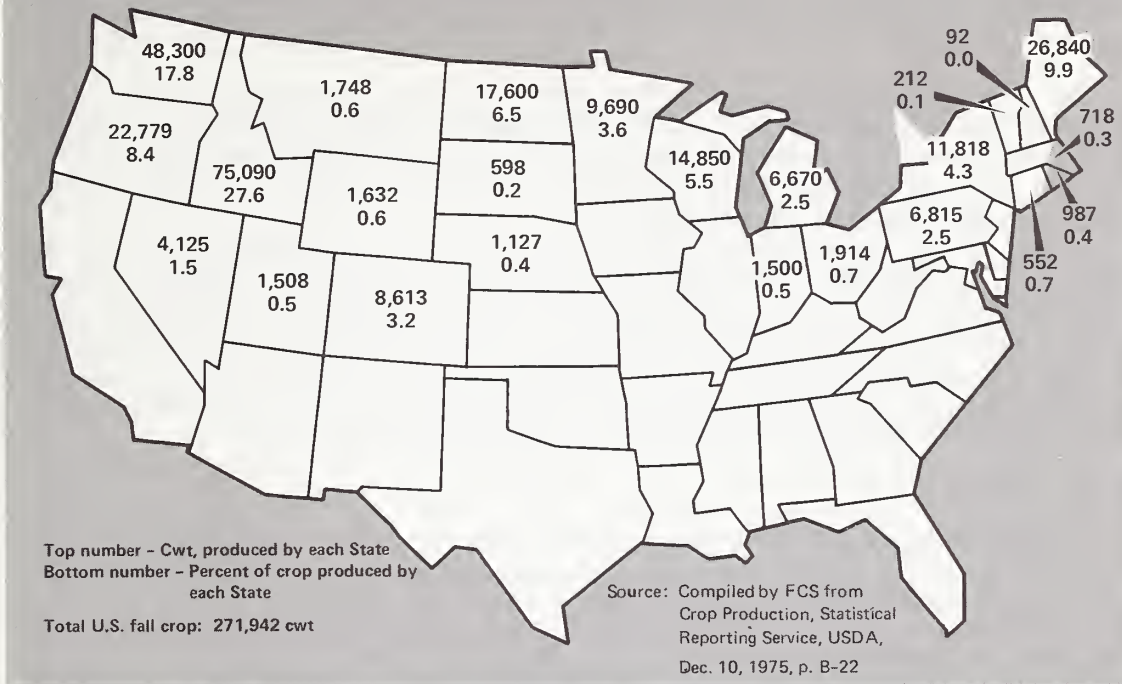
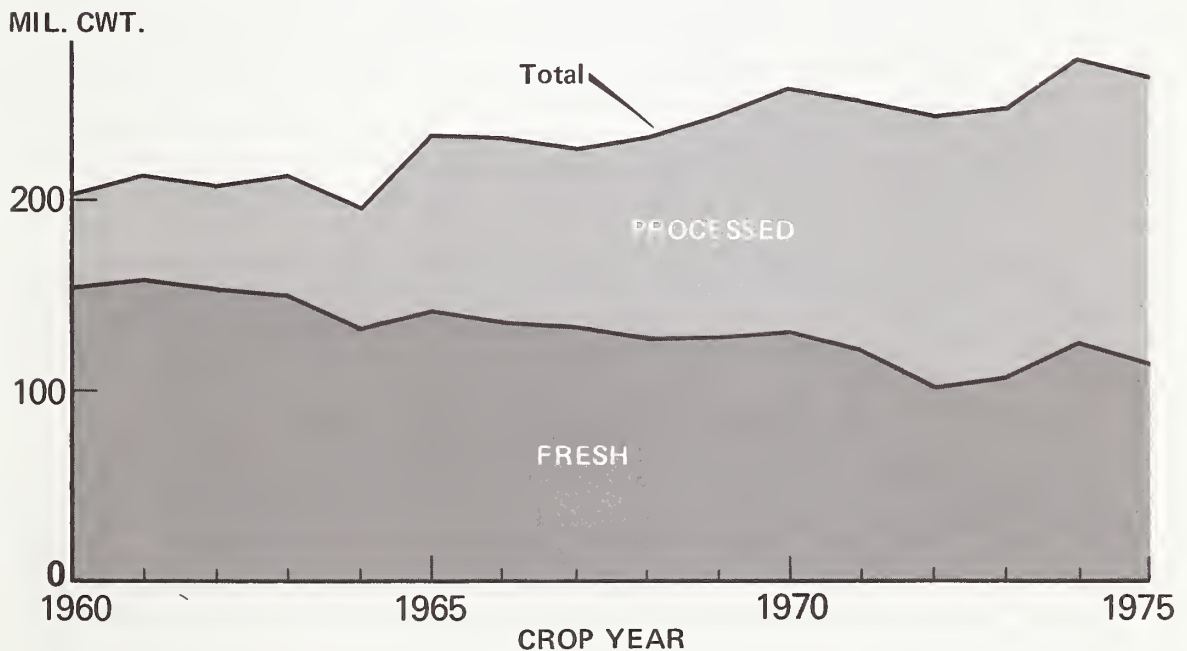


Fig. 2-- POTATOES USED FOR FOOD
FRESH AND PROCESSED



SOURCE: ANNUAL REPORTS OF THE STATISTICAL REPORTING SERVICE, USDA.

Washington leading with well over 400 cwt per acre during the past 3 years (app. table 1). North Dakota is the other extreme with an average of about 150 cwt per acre during the past 3 years (app. tables 2 and 3).

Potato Utilization

In 1974, about 45 percent, or 124 million cwt, of the potatoes used for food was sold as table stock and about 55 percent or 155 million cwt was utilized for processing (fig. 2). About one-half of the processed items consisted of frozen potato products, most of which were french fries. Chips and shoestrings, and dehydrated potato products each composed another 20 percent (fig. 3).

The trend in utilization has been toward greater processing of the potato crop and less sold fresh (fig. 4). From 1960 through 1974 the average per capita consumption of fresh potatoes *declined* 2.5 pounds per year, or 37.5 pounds in total. However, during the same time period, the average annual per capita consumption of processed potatoes *increased* 3.2 pounds per year, or 48.0 pounds in total. The components accounting for the most dramatic increase were frozen and dehydrated products. Frozen products increased from about 7 pounds in 1960 to 33 pounds per person in 1974.

Future Trends

Projections by Economic Research Service, USDA, indicate that the trend toward more processing and less fresh potato consumption will continue (fig. 5). By 1980, 75 percent of the potatoes used for food is expected to be processed and only 25 percent is expected to be sold as table stock. Frozen potatoes are expected to remain the leading item, accounting for 50 percent of the processed products. Dehydrated potato products are expected to remain the second leading component of processed potatoes, accounting for about 25 percent.

International Trade

The United States has only a limited foreign trade in potatoes. U.S. exports of fresh potatoes in 1974 amounted to only a little more than 5 million cwt or about 1½ percent of its 1974 production (table 2). Canada accounted for 89 percent of the total U.S. fresh potato exports in 1974. Small quantities move both ways across the Canadian border mostly between Maine, New Brunswick, and Prince Edward Island. Only about 20 million pounds of potato flakes were exported in 1974. About 36 percent of this quantity went to Sweden and 17 percent to Japan. Canada received 3 million pounds of about 8 million pounds of dehydrated potatoes exported in 1974. Of about 6 million pounds of potato chips and corn chips exported, Canada received about 3 million pounds.

Although potato exports are relatively unimportant at the present time, there is considerable interest among processors in exporting dehydrated potatoes to Japan, Taiwan, and Hong Kong. Also, there is interest in exporting dehydrated potatoes under Public Law 480 to underdeveloped countries as a means of improving diets in those countries.

Implications for Potato Growers

This overview of potato production and utilization indicates that: (1) production of potatoes in the United States is concentrated mainly in seven States, (2) utilization of potatoes has shifted significantly from the fresh to the processed market and this trend is expected to continue in the future, and (3) the demand for processed potato products in foreign markets has not been significant in the past but will become more important in the future.

The implication for potato growers is that especially for those in the leading

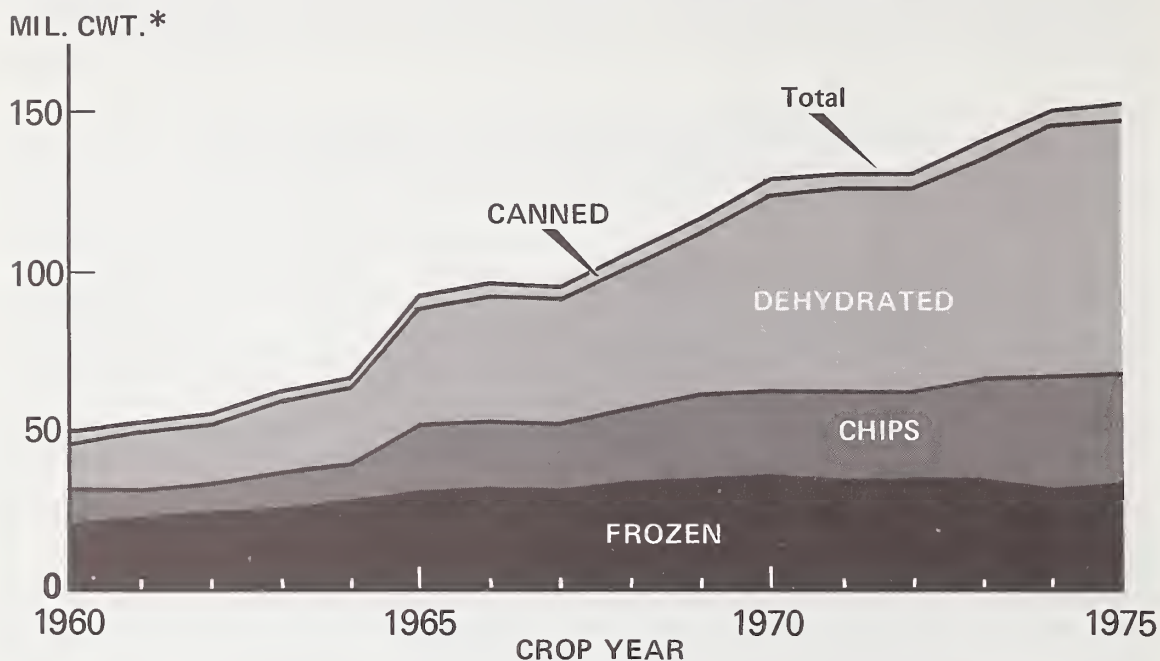
potato production areas, the processed market will become increasingly more important. Thus, understanding and knowing the needs of the processed market are of considerable importance in determining longrun success in producing potatoes for a profit. (app. tables 3 and 4).

Table 2—U.S. potato exports by type and country, 1974

Country	Fresh	Processed		
		Flakes	Dehydrated	Potato chips & corn chips
		----- 1,000 lbs. -----		
Canada	452,450	3,139	3,223	2,894
Mexico	30,351			
Venezuela	5,794	18		
Bahamas	5,794			790
Netherland Antilles				181
United Kingdom		2,742		
Sweden		7,241	504	
Denmark		1,393		
Spain		410		
Japan	5,892	3,400	1,829	
Australia	4,958	1,005	421	
Others	7,518	1,007	1,718	2,031
Total	506,963	20,355	7,695	5,896

Source: Compiled from: U.S. Foreign Agricultural Trade Statistical Report, calendar year 1974, Econ. Res. Serv., U.S. Department of Agriculture, May 1975, table 8, pp. 39, 41, and 47.

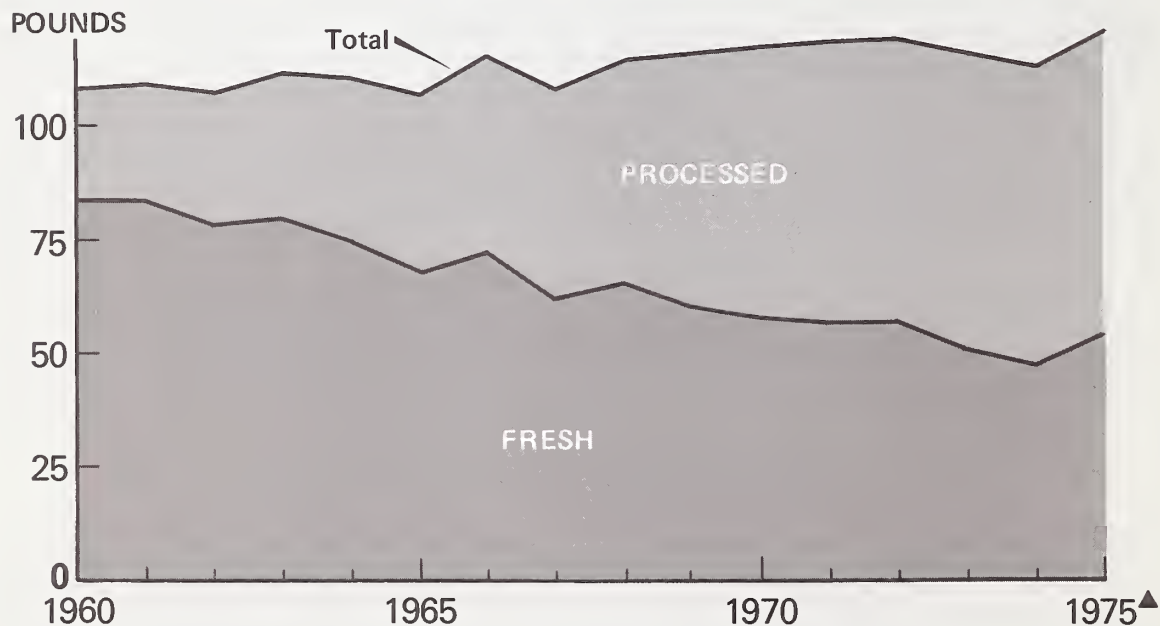
Fig. 3--POTATOES USED FOR PROCESSED FOOD ITEMS



SOURCE: ANNUAL REPORTS OF THE STATISTICAL REPORTING SERVICE, USDA.

*FRESH WEIGHT EQUIVALENT.

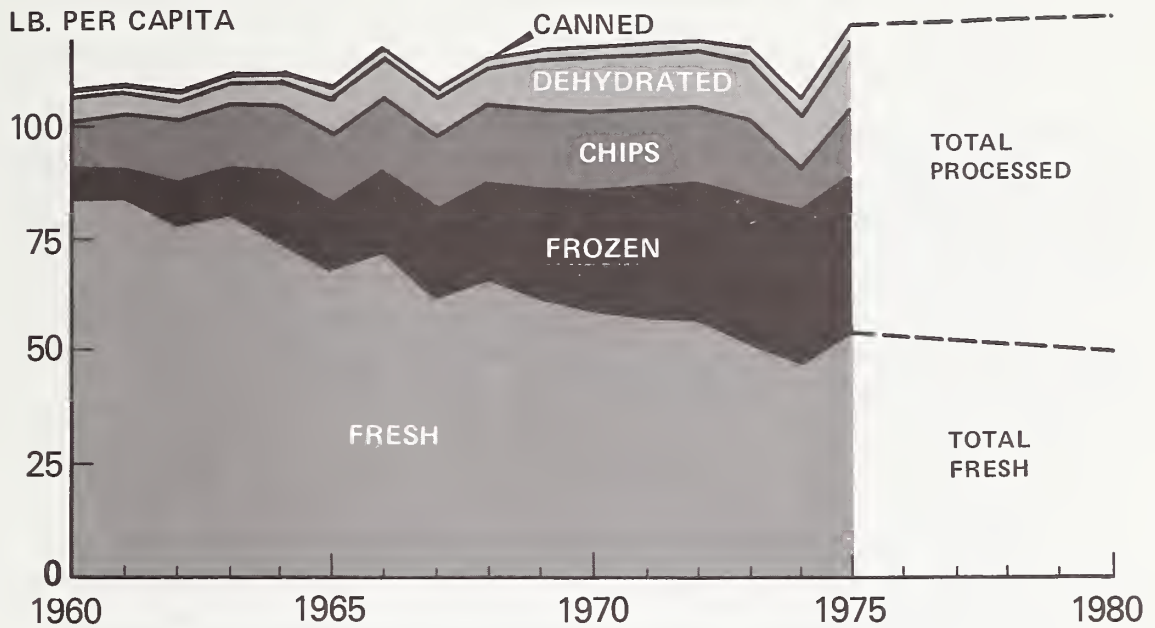
Fig. 4--PER CAPITA CONSUMPTION OF POTATOES



SOURCE: 1975 HANDBOOK OF AGRICULTURAL CHARTS, ECONOMIC RESEARCH SERVICE, USDA.

▲ PRELIMINARY.

Fig. 5--POTATO CONSUMPTION BY PRODUCTS
WITH PROJECTIONS TO 1980



SOURCE: TRENDS IN DEMAND FOR POTATOES AND POTATO PRODUCTS WITH PROJECTIONS TO 1980, REPRINT FROM VEGETABLE SITUATION, OCT., 1972, p. 28.

ORGANIZATIONAL CHARACTERISTICS OF PROCESSED POTATO INDUSTRY

Processors

Potatoes are processed in 257 chip plants, 35 dehydrator plants, and 31 freezer plants. The 257 chip plants are in every State, usually in or near major population centers.¹ The dehydrators and freezers are primarily concentrated in the major fall-crop production areas of Maine, Red River Valley, and the western tri-State area of Idaho, Washington and Oregon (fig. 6). The largest concentration of processors occurs in the western tri-State area, accounting for 21 dehydrators and 8 freezers.

Many companies involved in processing have multiple-plant operations, are involved in backward ownership integration, and are conglomerates. Following is a brief description of some of these characteristics (tables 3 and 4).

Table 3—U.S. potato processing facilities, single-plant operations, 1975

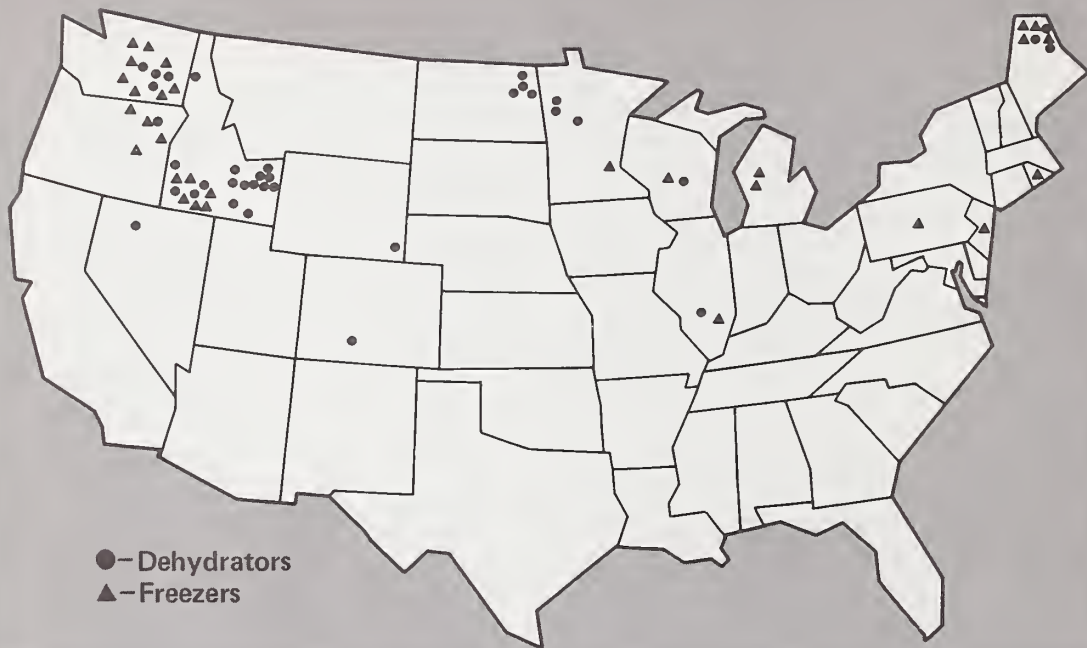
Firm (subsidiary)	State	Place
Borden, Inc.	ND	Grafton
Chef-Reddy Foods Corp.	WA	Othello
Consolidated Foods Corp.	ID	Twin Falls
Cyr Foods	ME	Caribou
Delsero	NJ	- - -
Hanover Brands, Inc.	PA	Center Hall
Idaho Fresh-Pak, Inc.	ID	Lewisville
IV International, Inc. (Desert Magin, Inc.)	OR	Boardman
King of Spuds	MN	E. Grand Forks
McCain Foods, Ltd.	ME	Washburn
Millers Prepared Potato Co.	IL	Blue Island
Pillsbury Co.	ID	Grand Forks
Processed Potato Products	MN	Minneapolis
Pro-Ida Foods, Inc.	ID	Ririe
Rogers Walla-Walla Inc.	WA	Pasco
Sentry Insurance Co. (Okroy Foods)	WI	Stevens Point
Stokley Van Camp	WA	Zillah
Sun-Glo of Idaho, Inc.	ID	Sugar City
Sunny Products	RI	Cranston
Twin City Foods, Inc.	WA	Prosser
Washington Nu-Process, Inc.	WA	Quincy
Western Idaho Potato Processors	ID	Nampa

¹For the purpose of this study, chip plants are excluded from the processing industry. Only dehydrators and freezers located mainly in the production areas are considered to be the processing industry.

Table 4—U.S. potato processing facilities, multiple-plant operations, 1975

Firm (subsidiary)	State	Place
American Potato Co.	ID	Blackfoot
	WA	Moses Lake
	WI	Plover
Alexander & Baldwin Inc. (Rogers Brothers Food Div.)	ID	Idaho Falls
	ID	Rexburg
	ND	Grand Forks
	WA	Righland
	WA	Moses Lake
Carnation Co.	WA	Moses Lake
	WA	Othello
	ID	Nampa
Del Monte Corp.	MI	Grand Rapids
	NY	Mount Vernon
Gourmet Foods	OR	Boardman
	OR	Boardman
Great Atlantic & Pacific Tea	ID	Burley
	ME	Fort Fairfield
Gulf & Western Industries (AMFAC Inc.)	ID	American Falls
	OR	Hermiston
	WA	Connell
	WA	Quincy
H. J. Heinz (Ore-Ida Foods)	ID	Burley
	MI	Greenville
	OR	Ontario
Idaho Supreme Potatoes (Wyoming Potatoes, Inc.)	ID	Feith
	WY	Pine Bluffs
J. R. Simplot	ID	Aberdeen
	ID	Burley
	ID	Caldwell
	ID	Heyburn
	ID	Idaho Falls
	MN	Crookston
	MN	Fosston
Magic West, Inc.	ID	Glenns Ferry
	ID	Rupert
Nonpareil Processing Corp.	CO	Monte Vista
	ID	Blackfoot
Potato Service, Inc.	ME	Caribou
	ME	Presque Isle
	ND	Grand Forks
Reckitt & Coleman Ltd. (RT French)	ID	Shelly
	NV	Winnemucca

Fig. 6--U.S. POTATO PROCESSING FACILITIES, 1975



Multiple-Plant Ownership

Multiple-plant ownership means that one company or corporation owns several plants, usually in more than one production area. Of 66 plants, 43, or 66 percent, are owned by 14 companies. The remaining are single-plant operations owned by 22 companies. The largest owner of multiple plants is J. R. Simplot with seven, followed by Alexander & Baldwin with five, Amfac with four, American Potato with three and Carnation with three. These five companies own one-third of the plants in the United States.

In the major production regions the following situations exist:

Idaho, Oregon, & Washington—J. R. Simplot, Alexander & Baldwin, Gulf & Western Industries, and Carnation Co. tend to dominate this area. Together they control 16 of the 39 plants in the region, or 40 percent.

Red River Valley—J. R. Simplot owns two of the eight plants in this region and has partial interest in a third plant. Thus, Simplot has control interests in about 40 percent of the plants in the Red River Valley.

Maine—Of the seven plants in this region, two are controlled by Potato Services.

Backward Ownership Integration

Another way of measuring the influence of the processing segment on the total industry is by the degree of backward integration into production of potatoes for processing. This may be accomplished by purchasing land for potato production or leasing land for the same purpose. As of this date, processors do not own a substantial proportion of the potato acreage in any production area. In the major production regions, the following situations exist:

Idaho, Oregon, & Washington—About 6 to 7 percent of the production of Washington is grown by processors. The firms integrating back into production have been Lamb Weston, J. R. Simplot, and Ore-Ida Foods.

Red River Valley—Processors produced about 4,000 acres of potatoes in 1973 which amounts to about 2 percent of the total acreage of North Dakota and Minnesota. Western Potato Services was the major processor, producing about 5 percent of its raw product needs.

Maine—In 1973, processors produced about 8,000 acres of potatoes, which is about 5 percent of Maine's potato acreage. The processors involved were Potato Services with 5,000 acres and Vahlsing with 3,000 acres.

Growers

Changes in the consumer market for potatoes has caused changes in the pricing and delivery systems of the potato crop. As processing of potatoes has increased, there has been a shift from the traditional open market for table stock potatoes, where individual shipments are priced on a day-to-day basis, to preseason contracts that establish prices for stock to be processed before the crop is planted. This shift to preseason contracts for potatoes to be processed has been followed recently by organized contract bargaining between growers and processors.

Bargaining Associations

The present bargaining system is loosely organized. Five separate and independent producer bargaining associations operate, one each in Idaho, Washington, Oregon, Maine, and the Red River Valley. The following is a brief description of each of the organizations.²

²For more detail concerning organizational structure, see app. II.

Agricultural Bargaining Council (ABC)—The Agricultural Bargaining Council in Presque Isle, Maine, is the outgrowth of a committee on bargaining within the Maine Potato Council. ABC is a voluntary organization and is authorized by a special act of the State legislature. In 1974, the organization represented about 700 members, which is 50 percent of the producers in Maine. These producers shipped 3.2 million hundredweight of potatoes to processors in 1974, which was 42 percent of the potatoes used for processing by Maine plants. To finance ABC, a producer checkoff system (\$.006/cwt in 1975) is deducted for potatoes sold for processing.

Red River Valley Potato Growers Association—The Red River Valley Association, at East Grand Forks, Minn., is a voluntary organization that represented about 70 percent of the 950 growers in both North Dakota and Minnesota in 1974. The association believes these growers also represent 70 percent of the potato acreage in both States. To finance the organization a checkoff (\$.0125/cwt in 1975) is collected from each grower.

Potato Growers of Idaho—The Potato Growers of Idaho (PGI) at Blackfoot, Idaho, is a voluntary organization of 1,550 members, which represents about 75 percent of the processed potatoes in Idaho. The organization is financed by a checkoff (½ percent of the gross sales of each member) which is collected by the Idaho Marketing Order. There was a ceiling of \$1,250/member grower in 1975.

The Malheur Potato Bargaining Association (MPBA)—This association, in Adrian, Oreg., represents potato growers in Malheur County. MPBA is voluntary and represents 350 growers, and the organization believes it represents 70 percent of the processed potatoes in Oregon. Many members of this association are also members of PGI and to a great extent bargaining efforts of this group are coordinated with PGI.

Washington Agricultural Marketing Association (WAMA)—The Washington association at Sunnyside, Wash., has a potato division that represents potato growers in their bargaining activities in the State of Washington. The Washington Farm Bureau owns preferred stock in WAMA. However, members of WAMA do not have to be members of the Washington Farm Bureau. WAMA is a voluntary organization and represents 50 percent of the 500 potato growers in Washington and about 60 percent of the processed potatoes in the State. The organization is financed by an assessment of \$4 per acre plus 1 percent of the net proceeds of potatoes sold under contract.

Characteristics of Bargaining Associations

These bargaining associations have some characteristics in common. (1) They are voluntary. This means that growers are free to decide whether or not they want to belong. (2) The associations do not control production. Grower members grow as many acres or hundredweight of potatoes as they desire. (3) The associations do not take title to the crop. The grower retains title to his crop until it is sold to the processor.

These associations represent a high proportion of the potatoes produced in their respective regions. But because they are voluntary, do not control production, and do not take title to the crop they have little influence or economic power.

This lack of economic power or influence in any one growing region also is true for control across regions. There is no formal horizontal coordination of the bargaining associations. There is, in contrast, a very high degree of horizontal coordination across production regions within those firms that operate in more than one region. This results in an imbalance of power in contract negotiations.

CONTRACTING FOR PROCESSED POTATOES

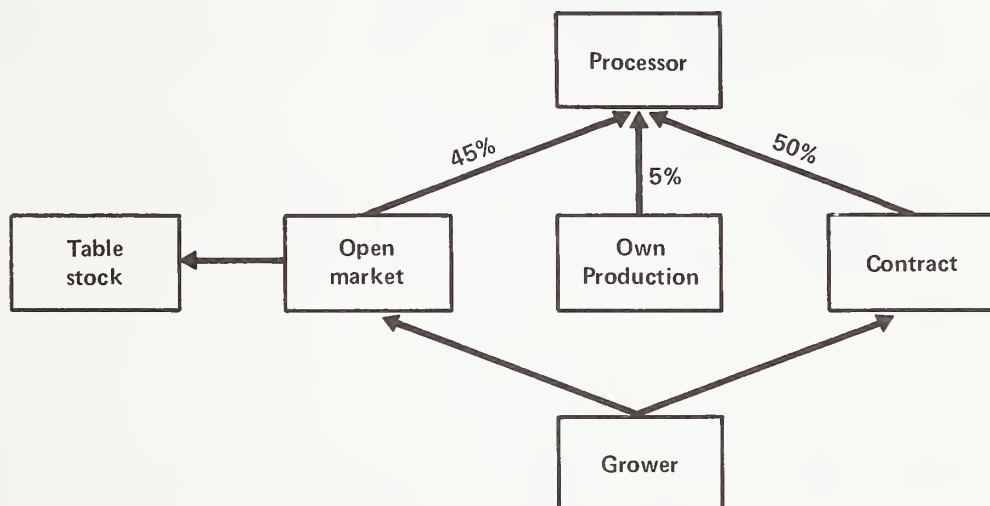
Formal bargaining for contracts with freezers and dehydrators appears to have started in Idaho with the organization of the Treasure Valley Bargaining Association

in 1956. By 1958, four different Idaho groups were involved in bargaining, and in 1966 these groups consolidated to form the Potato Growers of Idaho, the current bargaining association. By 1969, bargaining was generally accepted and contracts were signed with most Idaho processors. Organization of bargaining associations in other production areas followed the earlier developments in Idaho, but it was not until 1973 that contracts were signed with practically all of the freezers and dehydrators throughout the country.

Importance of Contracts

How much of the national crop is under contract to processors in any one year is not empirically known. However, it is known that processors do not contract for 100 percent of their needs. Depending on the supply and demand conditions in any one year, the amount contracted can vary from 30 to 75 percent of the processors' requirements. Potato industry experts generally agree that in a typical year processors will contract for about 50 percent of their need, buy in the open market about 45 percent of their supply and grow about 5 percent (fig. 7). Thus, processors have other options for their supply besides the contract market. They essentially wish to "play the market" for a high percentage of their needs.

Fig. 7 -- Processed Potato Market



Bargaining Process

A large amount of progress in bargaining for processed potato contracts has been made during the past 4 years. Five years ago, only a portion of the western crop was subject to negotiation between growers and processors. But the present bargaining system is still very loosely organized. Bargaining representatives still represent far less than their potential membership, and in their bargaining process do not represent any committed volume. Grower representatives negotiate a base contract with each processor. While growers agree that they will not accept lower terms than those specified in the base contract, they are individually free to negotiate for better terms. The bargaining organization accepts no responsibility for assuring or assisting processors in obtaining needed supplies.

Once agreement on terms of the base contract is reached, processors must then sign growers on an individual basis to obtain their needed volume. Processors view the base contract as a starting point in discussing contracts with producers on an indi-

vidual basis. Thus, the base contract establishes a floor, but processors are free to select the growers who will be offered contracts.

Organizational Structure for Bargaining

Methods of selecting negotiating teams differ among the organizations.³ In some cases, teams consist of growers holding current contracts with processors, and in others, teams are selected from the boards of directors. In one organization the executive committee of the association does the negotiating, and in another, three different methods are used to select the negotiating teams.

The organizations also differ in background support given the negotiating teams. Some organizations provide background information and marketing specialists for the teams while others provide little.

Information for Bargaining

Information collected for the purpose of bargaining is done on an ad hoc basis. Information on supply, demand, cost, and price is collected by each association. The organizations rely on published USDA reports and, in addition, some send out their own grower questionnaires. Responses are used to estimate costs of production and acreage. In some cases, individual organizations have a market analyst who can interpret these data while other organizations rely on the grower chairman of the bargaining committee. Individual associations are collecting most of the appropriate data for bargaining but are not able to adequately organize and analyze these data for bargaining purposes.

This problem is accentuated in the use and exchange of information among bargaining organizations. During the past 3 years, considerable ad hoc communication and information exchange has taken place between grower organizations in each of the major production areas. There is no coordinated development of information nor is there any aggregate analysis. There is need to coordinate development of essential bargaining information, provide for its analysis, and distribute it to the separate organizations.

Evaluation of Present System

Even though processors have seen some advantages from contracts, they acquire only 50 percent of their needs under contract in a typical year. They are content to "play the market" for the rest of their supply. Growers have formed bargaining organizations but insist on maintaining their individual independence by dealing with processors directly and usually for only part of their crop. Growers essentially "play the market" with the remainder.

Because processors contract for only about 50 percent of their needs, they typically are able to buy their additional volume in a depressed open market. Thus, processors are able to: (1) increase their margin on the amount they buy below contract prices in the open market and (2) reduce the price which they may be able to negotiate in the coming year.

For that portion of potatoes under contract, the present bargaining system represents little more than a method of communication and information exchange among growers in a particular producing area and between growers and processors. Even when processors negotiate and agree to base contracts, they sometimes are unable to obtain individual grower contracts. If grower organizations are to develop an effective bargaining stance, they must have some control over the portion subject to

³For more detail concerning each organization's structure for bargaining, see app. II.

bargaining. Processors, if assured of a supply at reasonable price, would most likely acquire a larger percentage of their needs under contract.

Most information needed in bargaining is generally available to individual associations but is collected and analyzed in an ad hoc fashion. Exchange of information among the associations and analysis of these aggregate data is sporadic, diffused, and fragmentary.

Thus, the two immediate areas of concern for the bargaining associations are those of (1) organization for exchange of bargaining information and (2) information needs and analysis.

PREREQUISITES TO EFFECTIVE BARGAINING

There are several requirements for effective bargaining through grower associations. The initial establishment of an information exchange and analysis such as that described in this report is not a guarantee that effective bargaining will follow. It is, in fact, only a small part of a set of conditions that must exist prior to effective bargaining. To emphasize its part in the overall bargaining effort, several of the prerequisites for effective bargaining are now listed. Each situation is so different that no single set of conditions is appropriate. This list generalizes some of the more common elements.

Representation by the bargaining association of a large proportion of growers in the relevant market is an important early step to an effective bargaining process. The association must be able to present to the buyers a consolidated position of strength, and not be in a position to be ignored or bypassed by buyers who can look elsewhere for a major portion of their requirements when the bargaining association begins to benefit its members through more satisfactory terms for their products.

Large market share can bring with it recognition. The bargaining association can do a good job on behalf of its members only if it receives proper recognition as their bargaining agent. Because the buyer wishes to deal with individual growers who have essentially no means to influence the price at which they sell their product, recognition will be given only reluctantly to an association representing the combined forces of many producers. Recognition and representation of an important share of the relevant market put the association in a position of being an effective agent of the association members.

In addition to market representation and buyer recognition, effective bargaining requires performance by the association and its members. Something tangible must be offered to the buyer in return for a higher price and more favorable contract terms. Examples of improvements in the selling process possible through a bargaining association vary with commodity and other circumstances, but may include improvement or change in quality of product offered, timing of supply, and better reflection of market needs back to the member to allow an accurate balancing of supply and demand.

If the bargaining association is to be a successful representative of its members, members must understand and abide by their responsibilities to the association. Member responsibilities can be defined by legal relationship, but the overall success of the bargaining enterprise will be possible only if the members have a personal commitment to support their association. To assure this attitude of support by members, the association must put on a good performance at the bargaining table, must be useful and efficient, and must develop and maintain good member relations.

Organized information exchange and analysis is only a small, though important, part of the overall bargaining function. Requirements of an effective bargaining organization go much further. This report focuses primarily on information. It should be clearly emphasized that implementation of the recommendations contained in this report is necessary for effective bargaining, but is by no means sufficient to assure it.

INFORMATION DEVELOPMENT AND USE

For effective contract bargaining, information that is timely and accurate is important. This section of the report focuses on (1) components of an ideal information system for bargaining, (2) currently available information, and (3) a framework for analysis.

Components of An Ideal Information System

Information for the purpose of bargaining between producers and processors can be categorized into four areas—supply (at the producer level), demand (at the processor level), costs (at the producer and processor level), and price. For the purpose of bargaining the timing of this information is crucial.

The four major components of an ideal information system for bargaining may be detailed as follows:

1. Supply information (producer level by production area)
 - a. Intentions to plant
 - b. Acres planted
 - c. Production—acres harvested and yield per acre
 - d. Stocks held by growers
2. Demand information (processor level by area)
 - a. Processed stocks on hand by product
 - b. Movement of processed stocks by product
 - c. Carryover stocks by product
3. Cost information
 - a. Costs of production
 - b. Costs of transportation—raw product
 - c. Cost of processing by product
4. Price information
 - a. Prices to producers
 1. "Street prices" to fresh market and processors
 2. Futures prices
 3. Current contract prices (other areas)
 - b. Wholesale prices by product
 - c. Retail prices by product

Currently Available Information

If potato growers could have access to information on each component presented in the previous section, an optimum bargaining strategy could be formed prior to actual bargaining. However, not all of that information is available to growers. Most information available is on supply. The least information available is on demand or at the processor market level (table 5).

All supply information considered useful to bargaining is available. The main source of information is USDA or information generated by growers. However, demand information is less available.

Frozen processed products inventory and pack are available, which includes frozen french fries and other products. Frozen stock or inventory is published by USDA. However, pack figures are not available through USDA but through the American Frozen Food Institute (AFFI), a trade association of processors.

Table 5—Information currently available to growers

Type of information	Availability	Source ¹
Supply of information:		
Intentions to plant	Yes	USDA & growers
Acres planted	Yes	Same
Production	Yes	Same
Stocks held by growers	Yes	Same
Demand information:		
Processed stocks on hand:		
Frozen	Yes	USDA
Dehydrated	No	- - -
Movement of processed stocks:		
Frozen	Yes	AFFI
Dehydrated	No	- - -
Carryover stocks:		
Frozen	Yes	USDA
Dehydrated	No	- - -
Cost information:		
Production cost:	Yes	Grower & State univ.
Transportation cost	Yes	Same
Processing costs	No	
Marketing costs	No	
Price information:		
Prices to growers:		
Open market prices	Yes	USDA
Future market prices	Yes	Exchanges
Contract prices	Yes	Bargaining associations
Wholesale prices by product	No	- - -
Retail prices by product	No	- - -

¹For specific sources of this information, see app. 1.

No information is available on any dehydrated potato products. Frozen inventory and pack must be used as a proxy for the total processing industry. Frozen product accounts for more than 50 percent of all processed products and should be a reliable indicator of the status of the processed industry.

Cost information is not available on any regularly published basis. However, this information is potentially available to the bargaining associations through its membership, State universities, and USDA. Costs of production data can be collected and analyzed by each bargaining association and made available for bargaining with processors. Cost information on processing and marketing of processed potatoes is not available. Only the processor has access to this information for his plant(s).

Price information to producers is available on the cash or street price, futures price, and on contract prices. Cash and futures prices for potatoes are reported by USDA, the *Wall Street Journal*, and brokerage firms on a regular basis. Contract prices are available by communication between the major potato bargaining associations. Information on wholesale prices of processed potatoes and the resulting retail prices are not reported by any Government agency or trade association. Again, only processors have access to this information for their own plants.

In summary, information available to growers is mainly on production and is limited to that made public. Processors, however, have equal access to this production information plus market intelligence on costs to produce processed products and processed product movement. Information favors the processing sector.

Growers need a framework for analysis so they can use their information for bargaining. After gathering all the available information, it needs to be analyzed and some bargaining strategy determined from the analysis.

Framework For Analysis

Information for bargaining should be analyzed with the objective of comparing the previous year with expectations for the coming year. Within the framework in which the information is collected, the following method is suggested for analyzing demand, supply, cost, and price information for potatoes.

Demand and Supply

After collecting supply and demand information available, comparisons can be made that show: (1) total supply and use of all potatoes and (2) supply and use for processed potato products.

Supply and use of all potatoes—This analysis provides an overall indicator of the total potato supply for the coming year. For each crop year, apparent use equals beginning carryover plus production minus ending carryover. Of course, total supply is calculated by adding beginning carryover and production.

Table 6 shows how to arrive at the total supply and use for all potatoes (fresh and processed) for a particular market area.

These figures are available on a 6-month basis and can be totaled for the calendar year. Comparing the status of the processed market in 1975 with estimates for 1976 allows growers a basis for forming a strategy for bargaining (table 7).

Example—For the purpose of illustrating how the tabular information can be used, data are used for the Red River Valley market. Note that the beginning carryover is the ending carryover of the previous year. This is always true, regardless of whether the table is for processed products or the entire crop. Data in tables 8 and 9 indicate that beginning carryover for 1976 will be down from last year, that production in the Valley is estimated or expected to increase, but total supply is expected to decrease, so that apparent use of potatoes for all purposes is expected to be as good as in 1975.

**Table 6—Comparison of total supply and use of potatoes for 1975
and expectations in 1976, by geographic area**

	CY 75	CY 76
Beginning carryover		
Production	---	---
Total supply	---	---
Ending carryover	---	---
Apparent use	---	---

Worksheet form.

Looking more closely at the processed component of the market shows how that portion of demand compares to the total. Estimated apparent use indicates that the processed frozen market should be at least as good as last year through the first months of 1976.

Thus, on balance, the data indicate that demand for all potatoes should be as good as last year. Also, demand for processed potato products should do as well if not a little better than last year, using frozen processed potato products as an indicator for all processed potato products. Analysis thus far would indicate that expected contract prices for the coming year should be at levels comparable to the previous year.

Cost Information

This information, primarily cost of production data, can be effectively collected by the association from members of each bargaining association. It can be supplemented by periodic research studies from the area land grant university. These data should be collected on a yearly basis so that relevant comparisons can be made from one production season to the next. Comparisons should be made between current cost and last season's cost in percentage terms.

Price Information

The two most important price considerations are: (1) futures market prices and (2) the price other bargaining associations have negotiated. The futures market price of March, April, or May should be compared with the previous year's price in the respective month. Also the contract prices negotiated by other bargaining associations need to be monitored. Knowledge of what processors have negotiated in other production areas provides an indicator of what prices should be in other areas.

How It All Fits Together

Once this analysis has been completed for each of the four information components, it should be used to arrive at a strategy for bargaining negotiations. Probably the best way to show this is to use an example. For ease of illustration, we will continue with the Red River Valley example.

- | | |
|---------|---|
| Example | - In the four areas of analysis, assume the following conclusions were reached: |
| Demand | - shows to be as strong as last year |
| Supply | - shows no increase |
| Costs | - production costs up by 5 percent |
| Prices | - futures price for May delivery up 8 percent |
| | - no other contracts negotiated |

Bargaining strategy—The association could reasonably expect to negotiate a contract price for 1976 in the range of 0 to 8 percent above the 1975 price.

**Table 7—Comparison of frozen potato products demand of 1975
and expectations for 1976**

	1975			1976		
	Jan-June	Jul-Dec	Total	Jan-June	Jul-Dec	Total
Beginning stocks						
Pack	---	---	---	---	---	---
Supply	---	---	---	---	---	---
Ending stocks	---	---	---	---	---	---
Apparent use	---	---	---	---	---	---

Worksheet form.

**Table 8—Comparison of total supply and use of potatoes for 1975
and expectations in 1976, Red River Valley**

	CY 75	CY 76
	----- 1,000 cwt. -----	
Beginning carryover	28,400	20,800
Production	27,290	30,000E
Ending carryover	20,800	15,500
Apparent use	34,890	35,300

E = Estimate

**Table 9—Comparison of frozen potato products demand of 1975
and expectations for 1976, Red River Valley**

	1975		1976	
	Jan-June	Jul-Dec	Jan-June	Jul-Dec
	----- Pounds -----			
Beginning stocks	80,201	126,002	100,000E	
Pack	282,547	215,254E	255,000E	---
Supply	362,748	341,256E	355,000E	
Ending stocks	126,002	100,000E	115,000E	---
Apparent use	236,746	241,256E	240,000E	

E = Estimate

LEGAL BASE FOR MARKETING AGENCIES IN COMMON

Any joint effort on the part of potato growers and their bargaining associations to solve the problems presented in the preceding sections of the report must comply with numerous laws. One area of law which will cause considerable concern to organizers of information exchange programs is antitrust. This section reviews briefly some legal issues which must be carefully considered and resolved to assure compliance with antitrust laws.

Any agreement among competitors for the exchange of information about production, costs, and especially prices must be analyzed for adherence to the Federal antitrust laws. The analysis must be done by legal counsel after a detailed consideration of all relevant facts. This section of the report cannot be relied on as a statement of the legal consequences of any system of information exchange. Its purpose is only to discuss some of the sources of legal problems which may be of critical importance to the success of a formalized information exchange program.

This section is divided into three parts. First, the general sources of law and rules and information exchanges are summarized. Second, the special rules as applied to farmer cooperatives are discussed. Finally, some implications are summarized for the system of intercooperative information exchange contemplated in the report.

Exchange of Information Generally

Two statutory provisions are the basis for prohibiting certain kinds of information exchange among competitors. The first is Section 1 of the Sherman Antitrust Act of 1890 and the second is Section 5 of the Federal Trade Commission Act of 1914.

Section 1 of the Sherman Act reads: "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations, is hereby declared to be illegal . . ."

Section 5 of the Federal Trade Commission Act reads: "Unfair methods of competition in commerce, and unfair or deceptive acts or practices in commerce, are hereby declared unlawful."

Activities that would be in restraint of trade or unfair methods of competition are not specifically described, so it is necessary to determine what information exchange and what circumstances might make the exchange of information subject to antitrust laws. A review of some of the more important cases decided by the Supreme Court suggests several general observations which identify areas of concern when two or more competitors exchange information.

Generally speaking, exchange of information among competitors may be illegal for two reasons. First, the exchange may be part of a plan to agree on prices—price fixing. Second, the exchange of information, even if not a price fixing device, may interfere with competitive forces operating in a free and open market.

Agreeing on prices or price ranges is a per se violation. That is, no harmful effects or unreasonableness need be shown. If price agreement is found, a violation exists. Because of this treatment of price fixing, most exchange of information cases discuss price information along with other kinds of information.

In summary, the half dozen Supreme Court decisions, extending from 1921 to 1969, suggest the following observations:

1. Exchange of nonprice information was not, standing alone, illegal.
2. Exchange of information was illegal when part of a plan to restrict competition, control production, divide markets, or agree on prices or price ranges.
3. Exchange of past and present costs, as averages and summaries, was not, standing alone, illegal.

4. Exchange of information on future production and prices will probably be illegal.

5. Exchange of detailed industry information identifying purchasers and individual prices was held to be illegal.

6. Exchange of price information with an understanding that it would be used to adjust prices accordingly will be illegal.

7. In a market where a few powerful producers control the industry, even informal exchange of current prices may be such an interference with ordinary forces of competition that it is illegal. Agreement to use the information for pricing or production purposes need not be found.

8. Restricting the exchange of information to members of an association is not, standing alone, evidence of conspiracy, but may be important when other circumstances suggest a conspiracy.

9. The method of exchange is not important, and the use of an independent research organization to exchange improper information does not protect the participants.

Special Cooperative Considerations

Just as the sources of antitrust law applicable to exchange of information are statutory, filled out by court decisions, so the special treatment of cooperatives is statutory. Three major sources of legislation are relevant to the issue—Section 6 of the Clayton Antitrust Act of 1914, Section 1 of the Capper-Volstead Act of 1922, and Section 5 of the Cooperative Marketing Act of 1926.

Section 6 of the Clayton Act reads, in part, "Nothing contained in the antitrust laws shall be construed to forbid the existence and operation of . . . agricultural . . . organizations, instituted for the purposes of mutual help, and not having capital stock or conducted for profit, or to forbid or restrain individual members of such organizations from lawfully carrying out the legitimate objects thereof; nor shall such organizations, or the members thereof, be held or construed to be illegal combinations or conspiracies in restraint of trade, under the antitrust laws."

The Capper-Volstead Act reads in part: ". . . Persons engaged in the production of agricultural products as farmers . . . may act together in associations . . . in collectively processing, preparing for market, handling, and marketing . . . such products of persons so engaged. Such associations may have marketing agencies in common; and such associations and their members may make the necessary contracts and agreements to effect such purposes . . ."

Section 5 of the Cooperative Marketing Act reads as follows: "Persons engaged, as original producers of agricultural products, such as farmers, planters, ranchmen, dairymen, nut or fruit growers, acting together in associations, corporate or otherwise, in collectively processing, preparing for market, handling, and marketing in interstate and/or foreign commerce such products of persons so engaged, may acquire, exchange, interpret, and disseminate past, present and prospective crop, market, statistical, economic, and other similar information by direct exchange between such persons, and/or such associations or federations thereof, and/or by and through a common agent created or selected by them."

Court interpretation of these statutes in the context of information is meager. Only one case, a circuit court of appeal case decided in 1974, dealt specifically with the problem of intercooperative cooperation, though not specifically with exchange of non-price information.

In the Treasure Valley case, two cooperatives were charged with price fixing as a result of their joint efforts in bargaining for their members. Two holdings are of significance. First, the court concluded that bargaining associations are within the definition

of associations as prescribed in the Capper-Volstead Act and the Cooperative Marketing Act. Second, the court reasoned that because the cooperatives could have formed a marketing agency in common which could have set a single price they could also exchange price information individually, without the formal need to organize an actual marketing agency in common.

The logic of the Treasure Valley decision is good. However, the nature of the facts discussed by the court and the strong disagreement with the decision by the federal regulatory agencies charged with antitrust enforcement indicate that activities similar to those in the case are not guaranteed immunity from prosecution.

The cooperative marketing act has not been extensively referred to by the courts, and may not be getting proper recognition. This is probably because most exchange of information problems include price agreements and the Act discusses only the exchange of information. It does seem, however, to permit more information exchange for cooperatives, their members, and their marketing agencies than is permissible for noncooperative enterprises.

Summary

Several comments can be made about systems of information exchange among cooperatives.

1. Information exchange must be done with care so as to comply with antitrust laws. A written compliance program may be appropriate to establish clearly the information that can be disseminated and the use of such information, as well as to provide a source of quick reference to be used by those responsible for operating the association.

2. Legal counsel should be used at each step to assure complete antitrust compliance. There will be a cost associated with this assistance, but the need to obtain and carefully follow legal advice at every step should be clear. Legal counsel must be obtained in the preliminary stages to give guidance on issues that arise.

3. Information exchange and price agreements are different and should be carefully distinguished. Understanding this difference will help explain some of the compliance guidelines and assist in making decisions concerning information exchange.

4. An organizational structure offering adherence to antitrust laws should be used for the information exchange program. Careful organization design will help assure the special recognition in the statutes for farmer associations. Mere organization itself will not immunize activity otherwise illegal, but will formalize the nature of the exchange and help avoid inadvertent questionable practices.

5. Special cooperative statutes should be used as guides to be sure the exchange is proper, and care must be taken to meet all the requirements listed in the statutes.

IMMEDIATE ORGANIZATION RECOMMENDATIONS

For the immediate future, potato bargaining associations need the following tasks performed to improve their bargaining capability:

- (1) Collect all appropriate available information for purposes of forming a bargaining strategy.
- (2) Analyze and interpret the information.
- (3) Develop a systematic exchange of information among bargaining associations.
- (4) Develop bargaining strategies.

Organizational Requirements

Performance of these tasks can best be accomplished by forming one organization. Such an organization would be a federation with each processed potato bargaining association a member. It is emphasized that this organizational structure does not meet the requirements for an effective bargaining association, but is recommended only as an organization designed to develop and exchange useful economic information, a prerequisite to effective bargaining.

Justification for a Single Formal Organization

A single organization formed to complete these tasks for each crop year is necessary for several reasons. These are:

1. Need to observe various laws, especially antitrust laws.
2. Need to maintain continuity of the information exchange.
3. Adequate and fair financing of the information exchange is a necessity.
4. Purposes of the information program itself can best be defined by use of a formal organization.
5. Finally, a number of diverse interests will be represented in this program, and formal organization may bring these interests together and specify the relationships among the various participants, and, more importantly, between the information program and the participants.

Major Tasks of A Marketing Agency in Common

The main tasks performed by the recommended organization would be to:

1. Collect all primary and secondary data essential to each association's bargaining situation.
2. Analyze and interpret these data for each association's production and marketing area.
3. Exchange information and analysis with member associations.
4. Aid in developing a bargaining strategy for each member association.

Staff and Office Requirements

The staff recommendations are one full-time professional person and one statistical clerk/secretary as support. The professional would be in charge of collecting, analyzing, interpreting, and exchanging information. This professional would also aid in the development of a bargaining strategy for each member association.

Immediate office requirements would be minimal. Initially, if appropriate space could be used in one of the member associations offices, this would aid in keeping overhead office costs to a minimum and for the association would be in lieu of a portion of its monetary assessment.

Financial Requirements

The financial requirements generally adopted by federated organizations are: (1) a one-time membership assessment to provide the equity for the new organization and (2) yearly dues to provide the operating expenses. Specific recommendations are:

1. Equity—It is recommended that a one-time assessment of \$1,000 be assessed each association.
2. Operating expenses—Estimated operating expenses for the federation would be about \$75,000 (table 10). Major expense items would be salaries for a full time pro-

**Table 10—Estimated budget for proposed processed potato grower
federation (1975 dollars)**

Service	Annual estimate
General manager	\$30,000
Statistical clerk/secretary	7,000
Payroll taxes	3,000
Telephone & telegraph	2,000
Travel	12,000
Office rent	4,400
Postage	2,000
Market news leased wire service 6 months @ \$106	2,000
Office supplies and equipment	7,000
Insurance & bonds	1,000
Printing	3,600
Total	75,000

fessional and statistical clerk/secretary, travel, and office supplies and equipment.

The yearly dues for each member association could be assessed by a variety of methods. Three alternative financing methods are: (1) based on number of growers represented, (2) based on volume represented, and (3) based on average production per member. The following are illustrations of each of these financing methods.

(1) Assessment based on number of growers represented

Organization	Growers	Share	Assessment
	<i>No.</i>	<i>Percent</i>	<i>Dollars</i>
Maine	700	19	14,250
Red River Valley	665	18	13,500
Idaho	1,700	46	34,500
Oregon	350	10	7,500
Washington	250	7	5,250
Total	3,665	100	75,000

(2) Assessment based on volume represented—
a 3-year average

Organization	Volume	Share	Assessment
	<i>1,000 cwt.</i>	<i>Percent</i>	<i>Dollars</i>
Maine	16,400	12	9,000
Red River Valley	24,950	19	14,250
Idaho	59,365	45	33,750
Oregon	11,165	8	6,000
Washington	21,555	16	12,000
Total	133,435	100	75,000

(3) Assessment based on average volume per member of
36,000 cwt = 100

Organization	Volume/Member	Index	Assessment
	<i>1,000 cwt.</i>		<i>Dollars</i>
Maine	23.4	0.65	8,193
Red River Valley	37.5	1.04	13,109
Idaho	34.9	.97	12,227
Oregon	31.9	.89	11,218
Washington	86.2	2.40	30,252
Total	- - -	- - -	75,000

LONGRUN ALTERNATIVES FOR PRODUCTION-MARKETING SYSTEMS

Lack of information and coordination among geographically separated potato producing areas provides the impetus to analyze long-term organizational alternatives for potato producers. In the long term, there is a need for a production-marketing system for potatoes that has the ability to coordinate producing areas to increase efficiency within the marketing channel.

This section presents a conceptual array of basic production-marketing systems that are longer term organizational alternatives for U.S. potato producers. The purpose of developing alternative conceptual systems is to stimulate discussion regarding effective ways to coordinate production and marketing by potato producers without the involvement of a Federal Government program aimed at supply control.

Dimensions of the Conceptual Framework

There are three dimensions of alternative producer-coordinated systems. These dimensions represent elements that interact to determine the potential effectiveness of the conceptual marketing systems.

These primary dimensions are:

1. Market commitment
2. Marketing activities
3. Organizational systems

Not only is each dimension important in its own right, but the interaction among these dimensions is important. The interaction defines the potential success of each producer-controlled marketing organization.

Market Commitment

Market commitment is defined as "an arrangement between one or more producers and a market made prior to harvest (and typically prior to planting) regarding the delivery of production." Inherent in the concept of market commitment is the preselection of a market and promise to deliver to that preselected market. The actual arrangement which is executed between the producer(s) and the market may or may not include specificity with regard to price, quantity to be delivered, or other terms of sale. Thus, when a market commitment is made, the producer operates outside the open or spot market.

Market commitment for potato producers would most likely take the form of a marketing agreement between the producer and his cooperative. A marketing agreement contractually obligates a producer to market his production through a specific cooperative—it is a promise to deliver his production. At the same time, it obligates the cooperative to accept his production.⁴ If a producer organization has a system of marketing agreements with its members, then the organization has the ability to enter into full supply contracts with potato processors. This is because the organization has reasonable assurance of a known supply *before* entering into a contractual obligation with a processor.

Marketing Activities

Differentiation between *selling* and *marketing* is necessary in understanding the importance of marketing activities. Selling involves ownership transfer and delivery

⁴For more detail on marketing agreements, see W. E. Black and R. D. Knutson, "Let's Talk About Marketing Agreements," *News for Farmer Cooperatives*, September 1974.

without coordination between production and markets. Marketing involves directing the production and marketing services to satisfy processors or their customers (and their requirements in the market). Therefore, marketing involves many additional activities besides selling.

A comprehensive management program from a marketing standpoint requires three major subareas: supply, marketing, and finance. Supply and financial management are both integral parts of a comprehensive management program because effective marketing can only be conducted in conjunction with supply coordination and financial support. Each of these activities can be important to the success of the total production-marketing effort. Of course, the activities are not necessarily independent of one another. That is, some activities are logically performed in conjunction with others or only after others are performed. Listed and defined below are those specific activities under each subarea that are of particular concern to a coordinated marketing program:

Supply management:

Production control: Ability to influence the quantity and quality of potatoes to be produced for predetermined aggregate market needs.

Inventory control: Ability to increase or decrease potato stocks (quantity and quality) to execute a planned marketing program that serves markets on a continuing basis.

Quality control: Ability to influence potato quality marketed.

Market management:

Market allocation: Ability to influence the total quantity and quality of potatoes made available to fresh and processed segments.

Market research: Knowledge of the processed potato markets, obtained through systematic inquiry.

Market planning: Deciding in the present what is to be done in the future through evaluation of probable outcomes of alternative courses of action.

Market information: The process of generating, gathering, and analyzing data relevant to fresh, frozen, and dehydrated potato sales performance in the market(s), and in relation to the total market and that of competing products.

Selling: Managing domestic and foreign sales in existing markets to gain maximum returns or achieve designated marketing goals.

New product development: Designing, planning, and marketing new potato products.

Advertising and merchandising: Promotion methods employed to develop new markets for processed products or increase market share in existing markets.

Financial management:

Facilities: Financing the purchase or lease of buildings, equipment, tools, etc., used in the marketing program operations.

Operations: Generating cash flow sufficient to manage ongoing firm business expenses.

Inventory: Financing stocks of a product necessary for support of sales flow and any reserve stock.

Organization Alternatives

The final component of the conceptual framework is the alternatives available for producer organization. The following types of organizations represent the most significant alternatives:

National bargaining organization

Marketing organization

Regional

National

Each organizational alternative may be defined as follows:

Bargaining organization: A legal business entity that does not take title to a commodity, but acts solely as an agent for producers to negotiate terms of sale with processors.

National bargaining organization: A bargaining organization that is available to serve all producers in the major production areas of the Nation.

Marketing organization: A legal business entity that takes title to potatoes from a group of producers and performs marketing activities for that output in such a way as to benefit the producer owners.

Regional marketing organization: A marketing organization of producers from each major production area, regionally controlled, with marketing decisions made within each regional organization.

National marketing organization: A marketing organization available to all producers in the major production areas for the product in the Nation. Decisions are codetermined with regional or local marketing organizations if federated, but are not if it is totally centralized. A national marketing organization may be formed without merging the assets of regional or local organizations (this would be an example of a *federated* framework).

A description of these alternatives is useful to further distinguish the differentiating features of each. Basically, the potato industry now has unorganized marketing because there is independent decisionmaking by individual producers as to whether or not they belong to a particular organization, kind and amount of potatoes to raise, and to which processor to sell. Under this system, producers normally base their production planning on the previous season's price. The relationships between producers and their bargaining organizations are voluntary and operate on a year-to-year basis. Producers, acting independently and without market commitment, provide an unpredictable industry supply.

National Bargaining Organizations

Individual producers do not possess equal bargaining strength with processors. Processors are few whereas producers are many. Furthermore, processors typically have greater knowledge of markets and prospective demand-supply conditions than do producers. Such knowledge is partially responsible for superior bargaining strength. One means of equalizing relative bargaining strength is for producers to organize into bargaining associations, as the potato industry has done. The greater the proportion of the total crop bargained for by the organization, the more its bargaining position would be enhanced in any price negotiations with processors. The concept has merit. The difficulty lies in its implementation.

There are several reasons why few bargaining organizations, regional or national, have achieved continued success. A constant effort is necessary to keep membership at sufficient levels to give enough power to the organization in terms of the proportion of total supply it commands. Processors, acting in their own economic interests, can create outside contracting conditions that attract members away from the bargaining organization. A moderate amount of the latter can undermine members' con-

fidence in the bargaining organization. A comparable situation is the history of turmoil among labor unions prior to their being given support through Federal laws as bargaining agents.

At the bargaining association level, another problem arises. What constitutes good performance? How can it be objectively measured? Unless some amount of the total supply is traded outside the bargaining association, no comparative measure of a bargaining organization's price performance is available. If an outside price is lacking, another useful standard for comparison must be found. Cost of production could be one such base. The problem here is deciding on whose production cost should be used. An average cost may cause those above or below the average to feel that they are not receiving fair consideration.

National bargaining organizations, compared to regionals, achieve two advantages. Nationwide representation simply gives an organization more bargaining strength because it represents a larger proportion of total supply. Second, better coordination by a national organization can achieve the same terms from a greater number of buyers.

New problems from a national organization may arise, however, that can be serious. Concern with the balancing of opposing goals of the various production regions cannot be avoided. If there is a market for only 80 percent of the crop for a given year at reasonable prices, which production shall be sold and which held back? Should some producers store their potatoes, and if so, how should they be chosen? Should the fresh market always be used as a residual market?

A national bargaining organization would still have to attract and maintain membership. So long as 70 to 80 percent or more of the production is represented by the bargaining organization, minimum difficulties would be encountered. Given this, those outside the organization would sell at, or very near, the prices developed by the national bargaining organization. To do otherwise would be against their own interests. Nonetheless, this would cause producers in the organization to bear its full operating cost, leaving those outside paying nothing but reaping benefits achieved by the organization.

More direct production-marketing coordination would be available from a producer *marketing* organization. Such an organization could be regional or national.

Local and Regional Marketing Organizations

Local or regional marketing organizations would base their strength on the presumption that ownership of large blocks of output gives enhanced ability to coordinate marketing, which would result in a better competitive position in the total market. Regional marketing cooperatives have emerged in some production areas for some commodities (e.g., cotton, fruits, some vegetables). Such organizations typically have voluntary membership held by demonstrating superior income performance through price or marketing strength. As large-volume organizations, they can develop markets that allow larger sales volume for their membership. Also, to the degree the marketing organization succeeds, it should create a long-term income advantage to members.

The strength of marketing rather than bargaining organizations lies in several inherent advantages. Of course, these must be implemented to be effective. Processors require substantial quantities of potatoes. Regional marketing organizations can assist in providing marketing capability. Large supplies of uniform commodities can be provided on a precommitted delivery schedule by such an organization. The organization in turn can contract with its members (marketing agreements) and thereby coordinate production and marketing for that segment of the national supply it represents.

Two basic methods of operation are employed by existing marketing organizations. One is to purchase commodities from the producer on a cash basis on delivery. The association assumes all risks thereafter, usually minimizing price risk

through hedging. If it can earn an additional amount from its marketing operations, it shares this among its membership. Its expenses are covered from its earnings.

The second method of operation is to place the producer's commodity into one or more pools. Producers are given an initial partial payment for their commodity, typically upon delivery. The initial payment represents some major percent of the market price at delivery time. Subsequent payments are made to reflect: (1) quality premiums and (2) final settlement of the pool.

The latter system has more advantages than the former. Greater flexibility is available to management in pricing and in market development strategies. The success of any marketing organization lies primarily in the capabilities of its top management. But management must have reasonable operational latitude for marketing negotiations.

Regional marketing organizations have the ability to make comparisons among themselves as some measure of their relative effectiveness. Yet there should be some objective measure other than regional organization comparisons because it could be a case of each regional performing equally well or equally poor. Regional organization comparisons will not reveal which is the case.

National Marketing Organization

A further step in sophistication and complexity of marketing organization would be one of nationwide scope. Such an organization could assume the form of a federation among regionals or a centralized national structure in which all producers would have direct membership. The opportunity of monopoly control over supply would not exist because voluntary membership is unlikely to include all producers as members.

A national marketing organization would allow producers to pool their resources toward a unified marketing effort. Producers would sell potatoes through the organization. With management of a large portion of total supply for marketing purposes, the organization would be in a position to establish marketing policies for the year's crop and relate supply to any changes desired in reserve stocks. A uniform marketing policy for the commodity could be established that could materially contribute to production-marketing coordination. A national organization would have an advantage relative to locals or regionals through its ability to represent larger volumes of potatoes. Also, it could enter into more sophisticated market commitments that could improve the operational efficiency of the entire marketing channel, such as joint ventures.

A national organization could provide information on market conditions, develop markets, provide quality control to processors, and engage in numerous other marketing activities that should enhance overall market position and income to the producer.

Centralization of marketing in a national organization would permit it to act as a direct agent. Thus, the element of quality, quantity, and price uncertainty which processors now face could be alleviated somewhat by supply contracts with the organization.

By having the ability to direct marketing policies, the national marketing association could achieve income and market share goals of producers. Producer income could be enhanced through providing potatoes according to specification, according to prearranged delivery schedules, and lower transfer costs within the marketing channel, with savings shared by both producers and processors.

A major problem facing a national marketing organization would be that of equitable treatment of producers in all regions. Proper coordination also is essential between the marketing program, which would represent the demand side, and the production, or supply side. Whereas the marketing organization can assist in obtaining

optimum producer-member incomes, it cannot long sustain unrealistic prices relative to supply and demand conditions.

The costs of maintaining a national marketing organization would depend greatly upon the type of marketing activities that it performed. For example, if a goal of a national marketing organization became one of planned management of carryover stocks, a substantial capitalization within the organization would be necessary as well as substantial costs incurred for operating the inventory program. Also, the total costs of maintaining such an organization would depend upon whether the organization was federated or centralized. In short, it is impossible to estimate the costs of such an organization until very specific assumptions are made concerning its total operation.

APPENDIX I—PRODUCTION AND UTILIZATION TABLES

**Appendix Table 1—Potatoes: Yield per acre, United States
and selected States, 1964-74**

Year	U.S.	Wash.	Oregon	Maine	Idaho	Minne- sota	North Dakota
	----- Cwt. -----						
1964	190	300	241	274	165	116	108
1965	210	351	238	241	219	150	145
1966	210	376	250	240	226	126	130
1967	209	345	270	238	210	128	119
1968	214	378	264	235	202	147	145
1969	221	416	285	225	220	158	145
1970	229	386	284	238	228	140	150
1971	230	386	289	260	242	172	155
1972	236	418	355	260	258	177	145
1973	230	430	380	210	244	167	145
1974	246	420	350	260	237	186	135

Source: Potatoes and Sweetpotatoes, Revised Estimates Crops 1964-69 Statis. Bul. No.490. July 1972, Statis. Rptg. Serv., U.S. Dept. Agr.; Potatoes and Sweetpotatoes, annual Aug. Issues 1972-75, Statis. Rptg. Serv., U.S. Dept. Agr.

Appendix Table 2—Potatoes: Utilization of the 1974 United States crop

Utilization items	Quantity	Total U.S. crop	Processed items
	1,000 cwt.	----- Percent -----	
Sales			
Table stock	123,094	36.4	
For processing			
Chips and shoestrings	32,777		21.2
Dehydration	34,547		22.3
Frozen french fries	69,733		45.1
Other frozen products	9,303		6.0
Canned potatoes	2,562		1.6
Other canned products			
(Hash, stews, and soups)	2,052		1.3
Starch and flour	3,836		2.5
Total	154,810	45.4	100.0
Other sales			
Livestock feed	4,154		
Seed	19,080		
Total	23,234	6.8	
Total sales	302,138	88.6	
Nonsales			
Seed used on farms where grown	4,437		
Household use	907		
Feed	1,221		
Shrinkage and loss	32,394		
Total nonsales	38,959	11.4	
Total production	341,097	100.0	

Source: Compiled from Potatoes and Sweetpotatoes, Statis, Rptg. Serv., U.S. Dept. Agr., Aug. 1975, page 12.

**Appendix Table 3—Production and per capita consumption
of potatoes, United States, 1960-74**

Year	Produc- tion	Per capita consumption						
		Total fresh and processed	Fresh	Processed ¹				
				Total	Canned ²	Frozen	Chips and shoe- strings	Dehy- drated
<i>Million cwt.</i>		<i>Pounds</i>						
1960	257.1	108.4	83.8	24.6	1.5	6.6	11.6	4.9
1961	293.2	109.3	83.8	25.5	1.5	6.8	12.3	4.9
1962	264.8	107.3	78.4	28.9	1.6	9.4	13.1	4.8
1963	271.2	111.4	79.9	31.5	1.7	11.0	13.9	4.9
1964	241.1	111.0	74.6	36.4	1.7	14.6	14.8	5.3
1965	291.1	107.0	68.2	38.8	1.7	14.3	15.8	7.0
1966	307.2	116.8	72.4	44.4	1.7	17.3	16.7	8.7
1967	305.8	108.0	62.0	46.0	1.7	19.0	16.9	8.4
1968	295.4	115.2	65.9	49.3	1.9	21.2	17.1	9.1
1969	312.4	116.8	61.6	55.2	2.0	24.6	17.7	10.9
1970	325.8	117.6	58.4	59.2	2.0	27.7	17.7	11.8
1971	319.4	118.9	57.0	61.9	2.2	30.3	17.3	12.1
1972	296.0	119.2	57.2	62.0	2.1	30.6	17.0	12.3
1973	299.4	116.5	51.6	64.9	2.3	33.2	16.6	12.8
1974 ³	341.1	113.3	47.4	65.9	2.3	33.0	16.1	14.5

¹Fresh weight basis.

²Includes potatoes canned in soups, stews, and other combinations.

³Preliminary.

Source: 1975 Handbook of Agricultural Charts, Agricultural Handbook No. Wash., D.C., October 1975, page 149.

APPENDIX II—ORGANIZATIONAL STRUCTURE OF BARGAINING ASSOCIATIONS

Bargaining Associations

Potato growers have formed bargaining associations in three of the potato producing areas previously described. There was no known association bargaining for potatoes in the New York and Pennsylvania area. Not all of the data were available on memberships and volume bargained for by these associations. However, five associations located in three areas had a membership of 4,025 potato growers and bargained for an estimated 84 million cwt of potatoes.

Idaho, Oregon, and Washington—Three bargaining associations were in this area: one in Idaho; one in Oregon; and another in Washington.

The Potato Growers of Idaho, Inc.

The Potato Growers of Idaho, Inc., (PGI) located in Blackfoot is a voluntary service association consisting of about 1,550 active potato growers representing all potato producing areas of the State.

Organizational Structure—For organizational purposes, the State is divided into seven districts and each district elects a district board and a district chairman (fig. 8).

The State board of directors, with a current membership of 73 growers, is made up of members elected by each district and allocation of membership is based on dues revenue received from each district (fig. 9). The State board reorganizes each year, electing a president, three vice presidents, secretary, and treasurer.

The executive committee of PGI includes the five elected State officers and the seven district chairmen. Executive committee meetings are held monthly, State board meetings are held quarterly, and the annual general membership meeting and elections are held in December of each year. However, special meetings can be called at any time, providing proper notice is given.

Organization for Bargaining—The bargaining efforts of PGI are headed by the vice president in charge of bargaining. He is assisted on a State level by three area bargaining coordinators selected on a geographic area basis representing eastern Idaho, south central Idaho, and western Idaho.

Separate contract grower meetings are held each fall after harvest for all growers doing business with, or planning to do business with each processor company operating in Idaho (fig. 10).

The bargaining committees are selected from growers attending these fall meetings. Selections are made by the district offices and the State bargaining offices with representation given to all areas growing for each processor. Each committee selects a chairman.

The committee negotiates independently with each processor with the advice and counsel of the State vice president in charge of bargaining and the area bargaining coordinators.

Functions—In addition to negotiating the price, the bargaining committees also negotiate for other important contract provisions such as; grades, inspection, payment schedules, delivery allowances, storage increments, and quality incentives. The result of the negotiations is an approved contract for use between the grower and the processor.

PGI does not take title to the potatoes and the processor pays the grower directly. The processor remits the checkoff to the association.

Fig. 8--OUTLINE OF DISTRICTS
OF POTATO GROWERS
OF IDAHO, INC., 1973

Totals

VII -District Number

73 -Number of Directors

317,800 -Acres of Potatoes

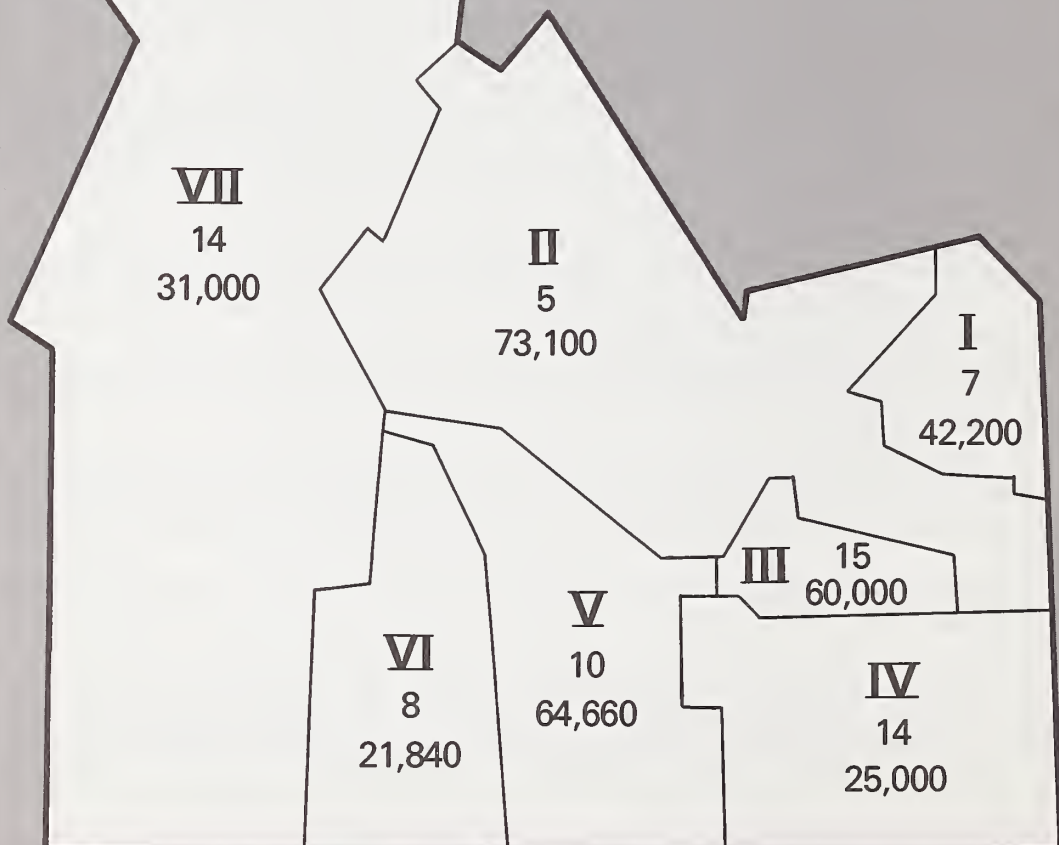


Fig. 9 -- Organizational structure of Potato Growers of Idaho, Inc., 1973

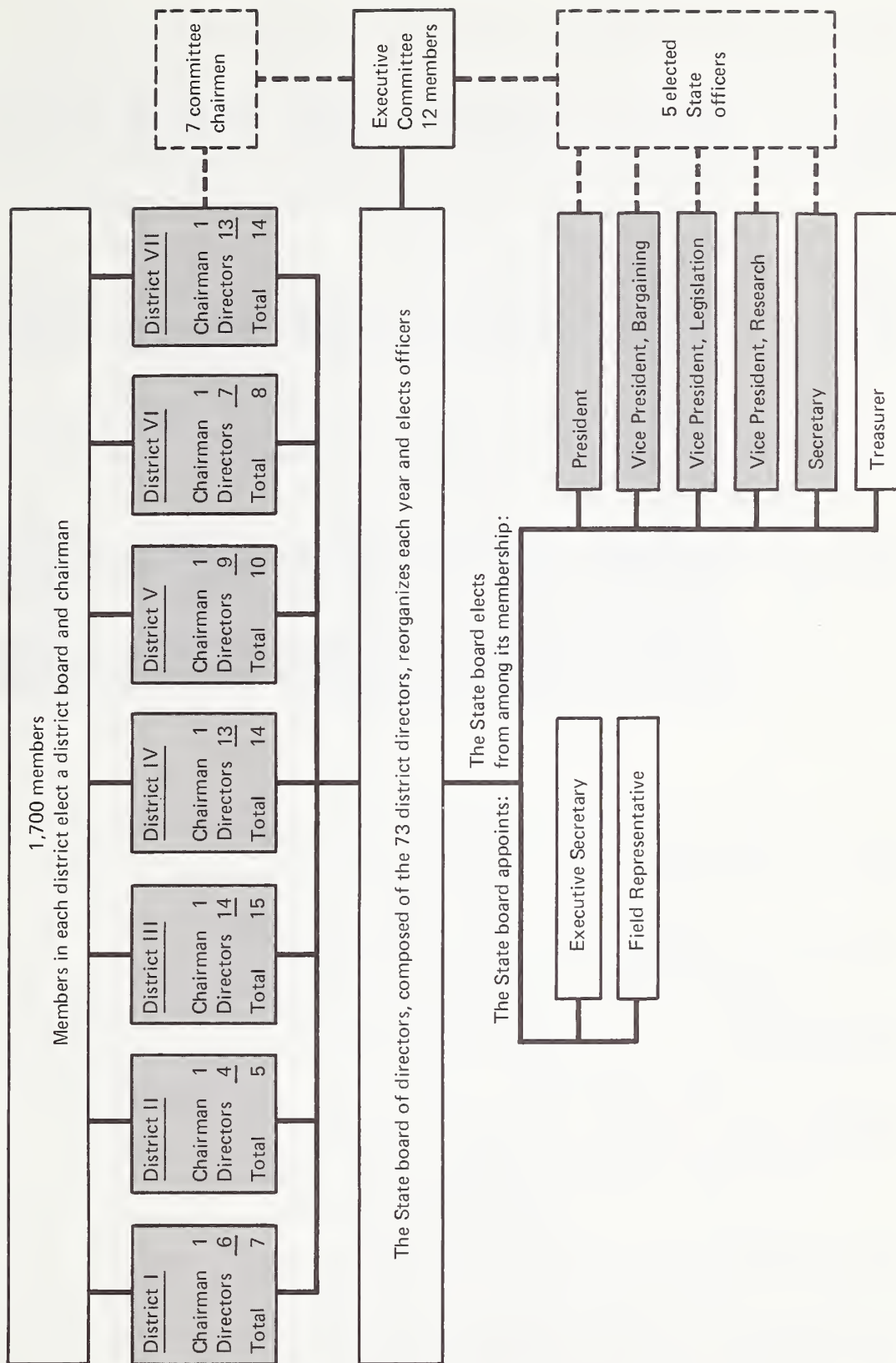


Fig. 10 -- Organization for bargaining, Potato Growers of Idaho, Inc., 1973

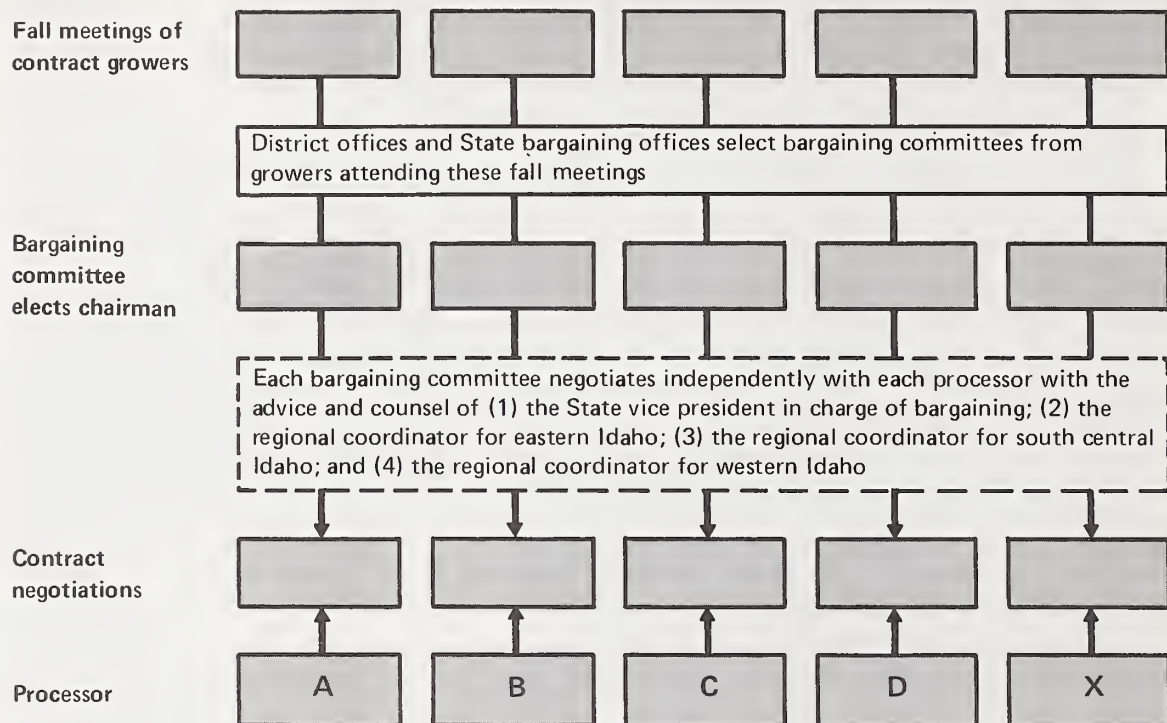
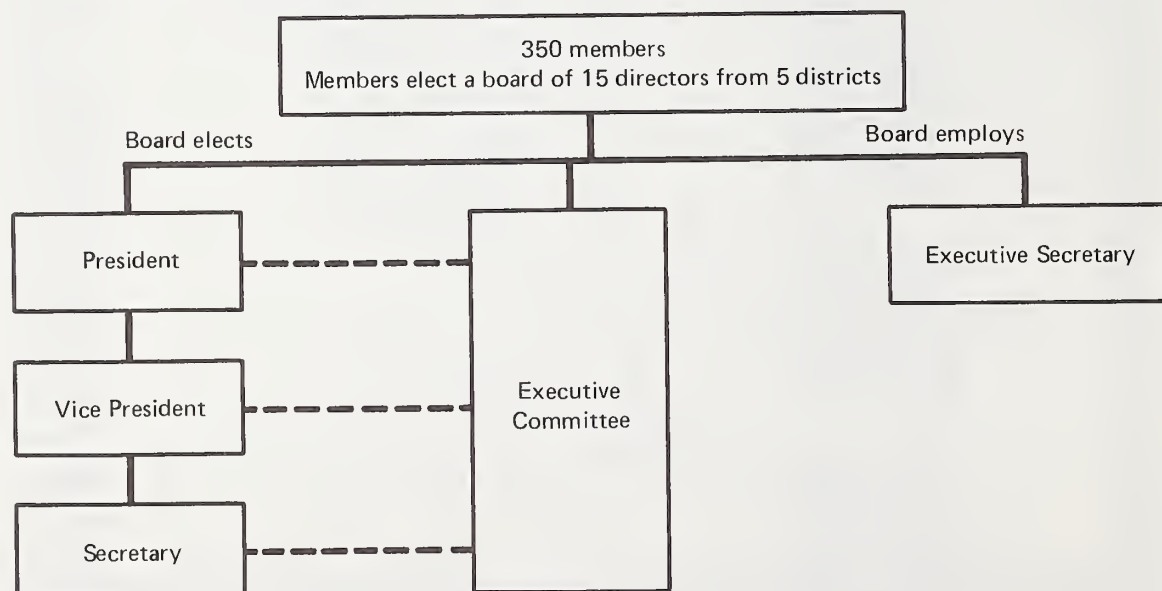


Fig. 11 -- Organizational structure of the Malheur Potato Bargaining Association, 1973

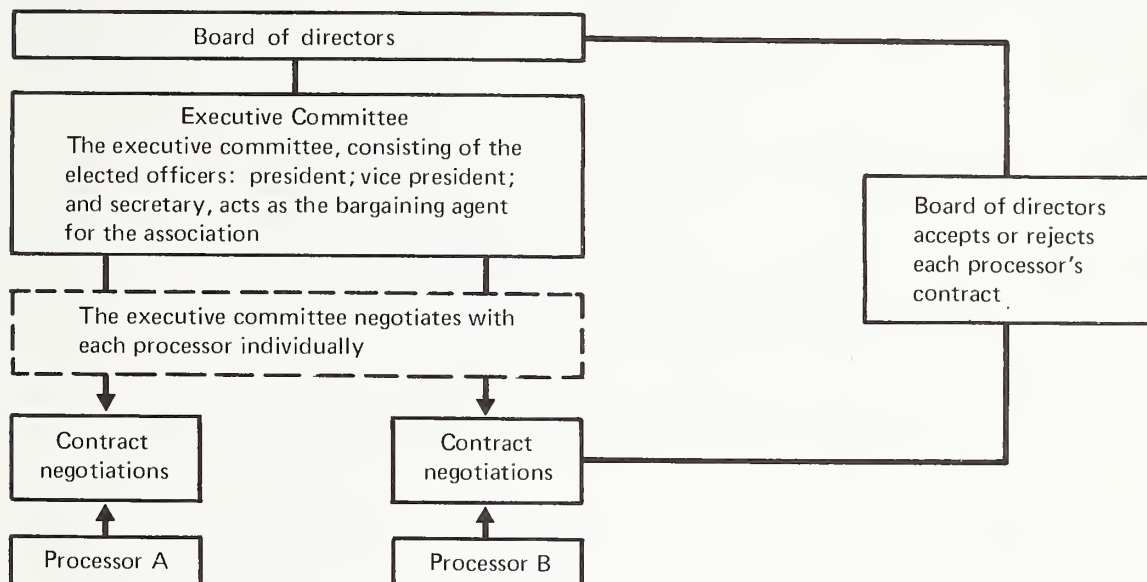


The association engages in legislative activity and dissemination of information, furnishes crop reports and forecasts, and publishes newsletters and newspaper articles.

The association provides production services such as fieldmen and recordkeeping services.

Marketing services provided by PGI include: collecting and distributing market information; monitoring processor operations; working to standardize member-processor contracts; trade promotion; grading; and transporting.

Fig. 12 -- Organization for bargaining, Malheur Potato Bargaining Association, 1973



The Malheur Potato Bargaining Association

The Malheur Potato Bargaining Association (MPBA) in Adrian, Oreg., has about 350 members.

Organization Structure—The members elect a board of 15 directors from 5 districts (fig. 11). The board of directors elects a president, vice president, and secretary. The officers make up the executive committee of the board of directors. The board also employs an executive secretary.

Organization for Bargaining—The executive committee of the board of directors, consisting of the president, vice president and secretary, acts as the bargaining agent for the association (fig. 12).

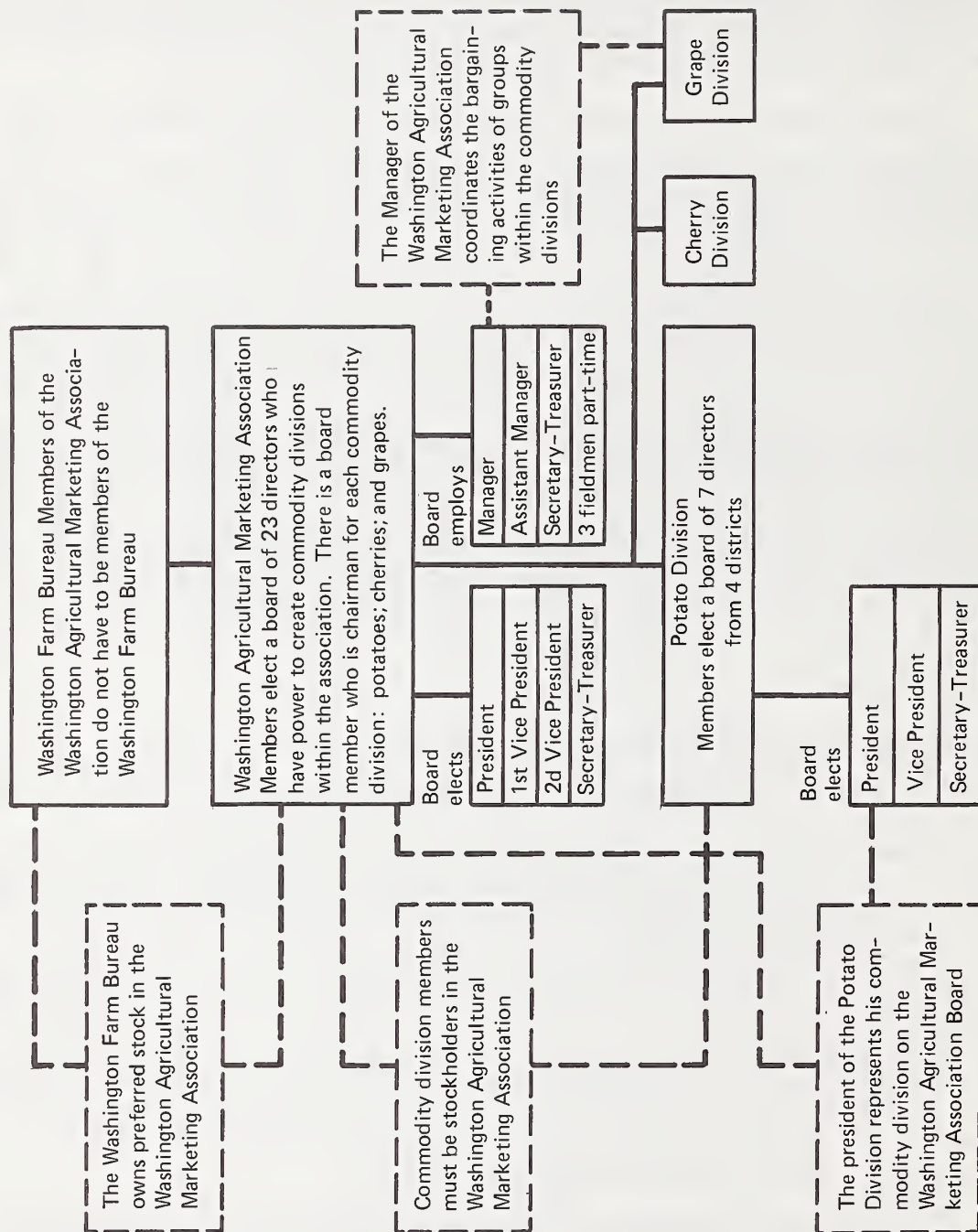
The executive committee negotiates with each processor individually. Because the executive committee is the bargaining agent and negotiates with only two processors, there is little difficulty in coordinating the bargaining activities. The board of directors accepts or rejects each processor's contract negotiated by the executive committee.

Washington Agricultural Marketing Association

The Washington Agricultural Marketing Association (WAMA) located at Sunnyside, Wash., has a Potato Division that represents potato growers in their bargaining activities in the State of Washington.

Organizational Structure—The Washington Farm Bureau owns preferred stock in WAMA. However, members of WAMA do not have to be members of the Washington Farm Bureau (fig. 13). WAMA members elect a board of 23 directors. The directors have

Fig. 13 -- Organizational Structure of Washington Agricultural Marketing Association, 1973



the power to create commodity divisions within the organization. There is a board member who is chairman of each commodity division. There are currently three divisions in the organization: potatoes, grapes, and cherries. Other divisions may be created as the need arises.

WAMA's directors elect a president, first vice president, and second vice president. They also employ a manager, assistant manager, secretary-treasurer, and three part-time fieldmen.

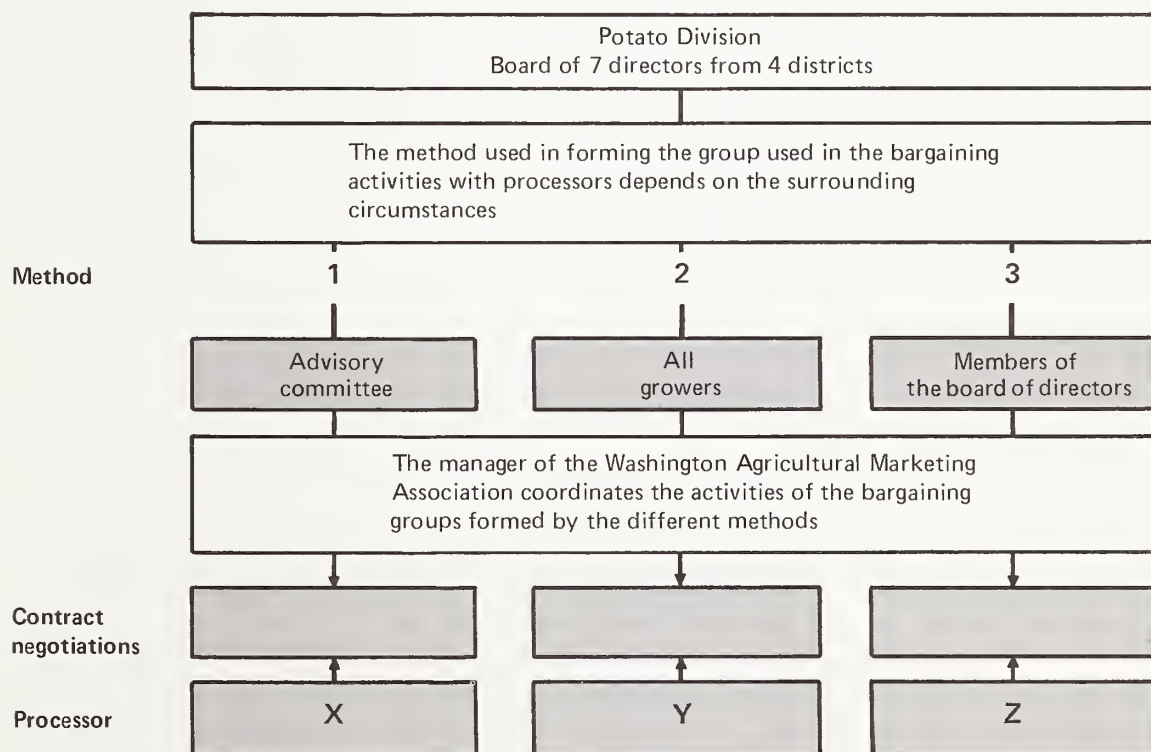
WAMA's Potato Division's members elect a board of seven directors from four districts. The members of the Potato Division must be members of WAMA. The Potato Division's board elects a president, vice president, and secretary-treasurer. The president of the Potato Division's board represents the Potato Division on WAMA's board of directors.

Organization for Bargaining—WAMA's Potato Division uses three different methods in forming the particular group that bargains with processors (fig. 14). The method used in forming the group used in the bargaining activities with processors depends upon the surrounding circumstances.

One method used in forming the group used in the bargaining process is to form an advisory committee for a given processor; a second method is to have all growers who grow potatoes for a given processor take part in the bargaining; a third method is to have the board of directors of WAMA's Potato Division engage in bargaining with a given processor.

The manager of the Washington Agricultural Marketing Association coordinates the activities of the bargaining groups formed by the different methods.

Fig. 14 -- Organization for bargaining, Washington Agricultural Marketing Association, Potato Division, 1973



OTHER PUBLICATIONS AVAILABLE

Part III—Antitrust Laws, Legal Phases of Farmer Cooperatives. FCS Information 100. 1976. 56 pp.

How the Public Views Agricultural Bargaining. Proceedings of the 20th National Conference of Bargaining Cooperatives, 1976. FCS Special Report 23. 72 pp.

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FARMER COOPERATIVE SERVICE
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